BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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Order Instituting Rulemaking to Adopt Biomethane Standards and Requirements, Pipeline Open Access Rules, and Related Enforcement Provisions.	Rulemaking 13-02-008 (Filed on February 13, 2013)

REPLY COMMENTS OF THE OFFICE OF RATEPAYER ADVOCATES

JONATHAN A. BROMSON

Attorney for the
Office of Ratepayer Advocates

California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone: (415) 703-2362
Email: jonathan.bromson@cpuc.ca.gov

MATTHEW A. KARLE

Regulatory Analyst
Office Of Ratepayer Advocates

California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone: (415) 703-1850
Email: matthew.karle@cpuc.ca.gov

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I. INTRODUCTION

In accordance with the April 9, 2014 Amended Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge (Amended Scoping Memo), and Rule 6.2 of the Commission's Rules of Practice and Procedure, the Office of Ratepayer Advocates (ORA) hereby files the following Reply Comments in the above captioned proceeding.

II. ISSUES

A. Issues Relating to Promoting Biomethane are Properly Dealt With in the Commission's Current RPS Rulemaking.

The May 2, 2013 Amended Scoping Memo states that issues related to promoting biomethane should be addressed as a part of the Commission's Order Instituting Rulemaking to Continue Implementation and Administration of California Renewables Portfolio Standard Program, R.11-05-005 (RPS proceeding). Biomethane issues should be considered holistically with other renewable resources. Biomethane producers such as Waste Management have indicated that the mandate in AB 1900[1] to promote biomethane

[1] Chapter 602, Statutes of 2012, adding Health and Safety Code Section § 25421.

requires a determination in the instant proceeding that interconnection costs and compliance costs be shared between gas transmission utility ratepayers and biomethane producers. ORA does not agree. Traditionally, gas producers have been responsible for costs associated with conditioning their gas to meet utility standards. Biomethane producers have not made a showing that promoting biomethane requires a change to this policy. There are more appropriate ways to promote biomethane which leave intact the currently competitive policy framework relating to gas producers, such issues are already being considered by the Commission elsewhere. Furthermore, AB 1900 does not require the Commission to provide transmission ratepayer subsidies for the costs of gas production. The mandate to promote biomethane does not require that the Commission decide the issue in the instant proceeding or change the current policy framework relating to costs of gas production. At present, costs relating to gas production are ultimately passed on to the purchaser of the gas commodity. The Commission can implement policies in support of biomethane in other venues while leaving this policy framework intact.

B. The Initial Costs of Producing Biomethane Will Be Largely Offset By the Price Premium on Biomethane

Biomethane producers have made a case that the costs involved in developing a biomethane injection project in California are significantly higher than in other states. In Opening Comments the Coalition for Renewable Natural Gas states that, "the developers of existing High BTU RNG landfill gas-to-energy projects throughout the U.S. have only paid a small fraction of the California IOUs quoted costs for interconnection."[2] Waste Management and the Bioenergy Association expressed similar concerns in their respective comments.

These arguments fail to take into account the fact that biomethane in California is sold at a premium relative to states that have not taken action to price carbon. Customers have incentives to pay a premium for biomethane, and the appropriate way for

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[2] Opening Comments, The Coalition for Renewable Natural Gas, at p. 5.

biomethane development to be incentivized is through market mechanisms such as pricing carbon. California has a number of programs which effectively place a price on carbon (Cap and Trade, RPS, the Low Carbon Fuel Standard). For example, state law currently requires electric investor-owned utilities (IOUs) to procure, at minimum, 110 MW of electricity generated from dairy, and other biogas from wastewater treatment, municipal organic waste diversion, food processing and codigestion.[3] The price premium for biomethane will increase as these programs mature, providing ample opportunity for biomethane producers to earn an appropriate return on their initial investment.

Fossil gas producers in California manage to pay a substantial portion of the costs a biomethane producer faces without ongoing ratepayer subsidies despite the current low price of natural gas in California, and they manage to do so without the price premium associated with biomethane. All gas producers should remain responsible for costs relating to interconnection, testing, and gas conditioning, consistent with current policy. Producers are and will remain able to pass these costs on to their gas customers.

ORA remains supportive of the existing regulatory framework for costs related to pipeline injection of natural gas, whether from fossil sources or renewable sources. Furthermore, this proceeding is not the appropriate venue in which to address issues related to promoting or subsidizing the interconnection costs of biomethane. ORA recommends that the Commission leave intact the current framework in which gas producers pay all costs related to conditioning, interconnection, and pipeline injection and that issues and costs relating to promoting biomethane be considered in other, more appropriate proceedings including those regarding gas purchases or distribution of funds for mitigating greenhouse gas emissions.

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[3] Pub. Util. Code § 399.20.

Respectfully submitted,

/s/ JONATHAN A. BROMSON

JONATHAN A. BROMSON
Principal Counsel

Attorney for the
Office of Ratepayer Advocates

California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102
Phone: (415) 703-2362
Fax: (415) 703-4592

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